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## Pakistan

### Cotton and Products

### Quarterly Report

**2005**

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**Report Highlights:**

The MY 2005/06 cotton harvest is forecast at 1.89 Million Metric Tons (MMT) - a significant decrease from the previous year production of 2.48 MMT. Progressive textile mills are focusing on producing better-quality products, particularly for export, making Pakistan a leading market for U.S. Pima and other grades of cotton. Consumption continues to expand in response to a resurgence in export markets and strong domestic demand. With domestic prices increasing mills are finding the importation of upland cotton increasingly attractive.

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### Executive Summary

The MY 2005/06 crop is forecast to be 1.89 Million Metric Tons (MMT), assuming a normal weather pattern and pest infestation. Progressive textile mills are focusing on producing better-quality products, particularly for the export market, making Pakistan a leading market for U.S. Pima and other grades of medium to long staple cotton. Total consumption continues to expand in response to strong export and domestic demand. Domestic prices are increasing, and are higher than the world rates for comparable grade local lint. Mills are finding the importation of upland cotton increasingly attractive.

**Table 1: Cotton Production, Supply and Demand**

Pakistan Cotton							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		05/2003		05/2004		05/2005	MM/YYYY
Area Planted	0		0		0		
Area Harvested	3092	3092	3200	3193	0	3000	(1000 HA)
Beginning Stocks	491	491	442	442	808	808	(1000 MT)
Production	1687	1687	2504	2504	0	1890	(1000 MT)
Imports	403	403	218	218	0	325	(1000 MT)
MY Imp. From U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	2581	2581	3164	3164	808	3023	(1000 MT)
Exports	44	44	131	131	0	34	(1000 MT)
USE Dom. Consumption	2090	2090	2220	2220	0	2419	(1000 MT)
Loss Dom. Consumption	5	5	5	5		5	
TOTAL Dom. Consumption	2095	2095	2225	2225	0	2424	(1000 MT)
Ending Stocks	442	442	808	808	0	565	(1000 MT)
TOTAL DISTRIBUTION	2581	2581	3164	3164	0	3023	(1000 MT)

### Production

Pakistan's MY 2005/06 crop did not start well, due, in part, to above normal winter and spring rains that collectively increased surface and ground water. Moreover, cooler and cloudy weather with intermittent rains slowed the planting campaign, especially in Sindh province. Similarly, Punjab province experienced land preparation and planting delays of 15-21 days, especially in areas where rains disrupted and delayed the harvest and threshing of the wheat crop. In addition, the market did not have the capacity to supply significant volumes of certified seed for replanting. A third factor is above normal pest infestation due to the moist weather in a situation where most farmers are not fully equipped to use quality pesticides and other inputs. Thus, cotton yields are forecast to be lower than last year based on crop damages due to floods, rains and pests. The monsoon season, which usually arrives in early July, started in late June and rainfall has remained above normal. During July heavy

rains in the catchment areas of rivers and in the cotton belt resulted in flooding and damaged more than one hundred thousand hectares of cotton. Prevailing humid conditions and succulent growth may bring pest infestation above normal levels. Re-sowing may be constrained and have a significant impact on the harvest due to the limited availability of quality seed. Based on these factors MY 2005/06 production is forecast at 1.89 MMT, which assumes a 6 percent decrease in area under cultivation and in the face of uncertain weather for the remainder of the season. This projected drop in production is significant given Pakistan's Ministry of Food, Agriculture and Livestock (MINFAL) estimates placing the MY 2004/05 cotton harvest at 2.48 MMT.

### **Production Policy**

Cotton is the backbone of Pakistan's economy and the government has intervened in the cotton market to support seed cotton prices. Seed cotton prices on average have been between Rs. 800-900 per maund (1 maund = 37.324 kilograms, Rs. 59.50=\$1). The season average open market prices had hovered near the set government intervention price of Rs. 863 per maund (Rs. 925 per 40 kilograms). Despite what turned out to be a record crop in MY 2004/05, initial uncertainty over the size of the crop proved sufficient to spur market speculation early in the year, which in turn, increased farm-gate prices to the benefit of the farmer.

The government has continued a policy of placing no restriction on the cotton trade for import and export. In the 90's the government restricted exports at the beginning of the season until the size of the crop could be determined.

### **Consumption**

Pakistan's cotton consumption increased sharply, for a third year in a row, in response to export-driven demand. Thru the first 8 months of MY 2004/05, textile exports are running 4 percent (volume basis) above the corresponding period of last year despite around 11 percent decrease in export of cotton yarn. The textile industry has reported a 6.3 percent increase in the use of cotton and 3.2 percent of man-made fiber in first six months of the MY 2004/05, compared to the corresponding periods of last year. The spinning and weaving industries continue to invest heavily in new equipment as well as to renovate existing equipment due to improved profitability over the last several years. Strong domestic demand, with a marginal increase over last year, and stronger export demand underpin the current market surge. Looking toward 2006 the textile industry knows to remain competitive in the global market it must aggressively pursue quality improvements and production diversification to include more value-added products, rather than rely on low-value yarn-based exports.

Synthetic fiber continues to gain acceptance among consumers who increasingly seek less expensive blended products to compensate for their shrinking buying power. The long-term trend is for synthetics to comprise an increasing share of domestic consumption. The growth in synthetic fiber use has been slow in 2004/05 due to rising petroleum prices and increases in end product prices.

**Table 2: Cotton and Synthetic Fiber Consumption**

Year 1/	Cotton (MT)	Synthetics (MT)
1999/00	1,566,348	404,008
2000/01	1,673,280	405,038
2001/02	1,755,669	409,557
2002/03	1,780,963	406,515
2003/04	1,938,678	468,984
2004/05 2/	1,194,037	292,670

1/ July/June Marketing Year Data: Based on reporting mills information

2/ July-January Data Only: Based on reporting mills information

Source: Ministry of Industries and Ministry of Finance, Government of Pakistan

**Table 3: Yarn and Fabric Production**

Year	Yarn (MT)	Cotton Cloth (Mil. Square meter)
1999/00	1,669,900	437.2
2000/01	1,721,000	490.2
2001/02	1,808,600	568.4
2002/03	1,915,160	576.6
2003/04 2/	1,929,130	683.4
2004/05 3/	829,900	283.4

1/ July/June Marketing Year

2/ Preliminary Data

3/ July-Nov Data Only

Source: Ministry of Industries and Ministry of Finance, Government of Pakistan

### Trade

In MY 2004/05 Pakistan is projected to be a net importer of cotton as a result of strong domestic demand for better grades of cotton. During the first 6 months of the MY 2004/05, Pakistan imported 110,000 MT of cotton (about 7 percent lower than the corresponding period a year earlier) and exported 73,021 MT of cotton in the first 8 months (compared to 25,117 MT in the corresponding period a year earlier). Firms often import upland cotton for their export programs due to contamination problems in local cotton, particularly with alien fibers (polypropylene, jute). The problem occurs during the harvest and handling and wreaks havoc in the industry by creating yarn with differential yarn strength and differential dye uptake. Estimates are that contamination increases a mills' cost by 10 percent or more. Some mills have standardized their blend for export markets, with a predefined origin and percentage of imported cotton in the product. In MY 2003/04 and in MY 2004/05 to date, Pakistan is the largest buyer of U.S. Pima/ELS cotton. Progressive firms are focused on producing higher-count yarns and better quality fabrics for the export market. Specialized products demanded in the domestic market thus will continue to turn to quality inputs such as the U.S. Pima cotton.

In MY 2005/06 Pakistan's import of US Pima/ELS and a variety of other medium to long staple cotton is expected to be strong. The demand for imported strict middling grade cotton may increase if the forecast of a small domestic crop materializes.

**Stocks**

MY 2005/06 carry out stocks are forecast to decline substantially as a consequence of the decrease in the domestic harvest, higher domestic disappearances, and lower imports of medium staple cotton during the year. Most of the mills will be covered through November and December 2005, when the bulk of domestic crop will come onto the market.